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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20445

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Federal-State Joint Board	)	CC Docket No. 96-45
on Universal Service	)	
	)	
Tennessee State Department	)	Applicant ID No.
Of Education	)	145698
	)	
Application (FCC Form 471)	)	Universal Service Control
for Approval of Funding	)	No. 144790000000004

To: The Commission

Administrator, Schools  
and Libraries Corporation

**SECOND SUPPLEMENT TO OBJECTION TO APPLICATION  
AND REQUEST FOR EXPEDITED DECLARATORY RULING**

Integrated Systems and Internet Solutions, Inc. ("ISIS 2000") hereby supplements its pending "Objection to Application and Request for Expedited Declaratory Ruling," ("Objection") filed April 3, 1998, to include the attached May 27, 1998 Letter<sup>1</sup> from the Tennessee State Information Systems Council ("ISC") notifying Education Networks of America ("ENA") of ISC's approval of the sale of the State's

<sup>1</sup> May 27, 1998 letter from the Tennessee State Information Systems Council (which consists of Jane Walters, Commissioner of the Tennessee State Department of Education, William Snodgrass, Tennessee State Comptroller of the Treasury, and John D. Ferguson, Commissioner of the Tennessee State Department of Finance and Administration), to Mr. Albert Ganier, President of ENA. Consistent with ISIS 2000's May 1, 1998 Supplement to Reply, the documentary designation "Attachment Z" continuing from the last-used Attachment designation will be used to avoid confusion.

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interest in the ConnectTEN network to ENA subject to the following condition:

At its meeting on May 26, 1998, the Information Systems Council approved the sale of the State's interest in ConnectTEN. That interest includes ENA's exclusive use, but not ownership, of ConnectTEN hardware until it is replaced. At that time the hardware will be returned to the State. We believe this arrangement, which we hereby expressly approve, satisfies the substance of the transfer of ConnectTEN that is contemplated in the proposal of ENA.

This conditional approval further confirms the "wash" nature of the sale transaction, the ultimate economic effect of which is to inflate the amount of USF funding over the 3½-year term of the contract by approximately \$16,000,000. As now structured, not even the true ownership of the ConnectTEN network equipment is being sold to ENA in return for the provision of services using the equipment. Rather, in return for a paper payment from ENA of \$7,500,000, only the bare right to use the existing ConnectTEN equipment for a period of approximately 18 months (denominated Service Level One) is being transferred to ENA. At the same time, ENA will charge the Department of Education ("Department") \$7,950,000 for the setup of so-called "Internet services" provided over the equipment. The net effect is to charge the Department for the use of its own equipment with no actual ownership of the equipment even passing to ENA.<sup>2</sup>

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<sup>2</sup> For a more comprehensive discussion of the "wash" transaction, see ISIS 2000's Objection at pp. 11-18, Supplement to Objection at pp.2-5.

For the first six months (July-December 1998) of the Contract for which funding is now requested, this transaction is reflected in the following two Form 471 line items for so-called "Internet access" services:<sup>3</sup>

	Estimated Eligible Prediscount Total Charges
Basic Internet Access Service Setup Fee	\$ 1,747,000
Basic Internet Access Service Provision	\$ 1,975,656

As previously shown, the balance of the \$7,950,000 charge is then carried over for services in 1999.<sup>4</sup>

These are not charges for an established or recognized component of "Internet Access" services generally available

<sup>3</sup> Department Form 471 Application, Response to Question 15 and Supporting Documentation Appendix. As shown by the following line-by-line comparison of Form 471 information and ENA's original bid proposal (ISIS 2000 Objection, Attachment I, p. 3), these two categories on Form 471 represent the Bid Proposal line item of \$7,950,000 (labeled "One Time Costs, Service Level 1--Basic Network"), the only difference being a deferral of part of the charge to 1999 (except for Service Level 1, one-time and ongoing service charges are combined for ease of reference):

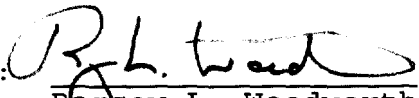
	<u>ENA Bid Proposal</u>	<u>Form 471</u>
Service Level 1		
Basic Network		
One-Time Cost	\$ 7,950,000	\$ 3,722,656
Ongoing Service	\$ 1,654,620	\$ 1,654,620
Service Level 2	\$ 2,982,857	\$ 2,982,858
Service Level 3	\$ 2,668,363	\$ 2,668,364
Service Level 4	\$ 2,559,863	\$ 2,559,863
Service Level 5	\$ 1,897,839	\$ 1,897,839
Service Level 6	\$ 1,932,396	\$ 1,932,396
Service Level 7	\$ 1,862,395	\$ 1,862,395
Service Level 8	\$ 1,491,667	\$ 1,491,667

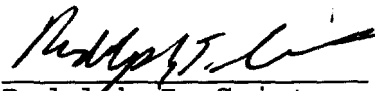
<sup>4</sup> See Supplement to Objection to Application and Request for Expedited Declaratory Ruling, filed April 20, 1998, pp. 2-5.

in the marketplace at a price determined by competitive market forces. Rather, they are artificial charges for so-called services which represent no more than the Department's continued use of the ConnectEN network equipment being temporarily transferred to ENA -- charges which are offset by ENA's paper payment to the Department for ENA's temporary use of the ConnectEN equipment. This type of creative bookkeeping certainly was not intended to be an allowable feature of the Schools and Libraries program, as set up by Congress and the Commission's Rules.

Respectfully Submitted,

INTEGRATED SYSTEMS AND  
INTERNET SOLUTIONS, INC.

By:   
Ramsey L. Woodworth

  
Rudolph J. Geist

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Its Attorneys

June 12, 1998

May 27, 1998

Albert F. Ganier, III  
Education Networks of America  
209 10th Avenue South, Suite 500  
Nashville, Tennessee 37203

Dear Mr. Ganier:

This letter is written pursuant to Section A.11.11 of the Contract between the State of Tennessee, Department of Education and Education Networks of America (ENA). At its meeting on May 26, 1998, the Information Systems Council approved the sale of the State's interest in ConnectTEN. That interest includes ENA's exclusive use, but not ownership, of ConnectTEN hardware until it is replaced. At that time the hardware will be returned to the State. We believe this arrangement, which we hereby expressly approve, satisfies the substance of the transfer of ConnectTEN that is contemplated in the proposal of ENA.

Sincerely,

  
John D. Ferguson, Commissioner  
Department of Finance and Administration

  
William R. Snodgrass, Comptroller of the Treasury

  
Jane Walters, Commissioner  
Department of Education

cc: Patricia Contrell, Esquire

**CERTIFICATE OF SERVICE**

I, Rudolph J. Geist, hereby certify that copies of the foregoing Second Supplement to Objection to Application and Request for Expedited Declaratory Ruling were served on this 12<sup>th</sup> day of June, 1998, via hand delivery, to the following individuals at the addresses listed below:

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Rudolph J. Geist

\*By first-class mail, postage pre-paid